


| | | | |
|---|--|-----------------|-----------|
| Certified Public Accountant (Firm Name) | | | |
| Baird, Cotter & Bishop, P.C. | | | |
| Street Address | | City | State |
| 134 W. Harris Street | | Cadillac | MI |
| Accountant Signature | | ZIP | |
|  | | 49601 | |
| | | Date | |
| | | 12/5/04 | |

CLAM LAKE TOWNSHIP DOWNTOWN DEVELOPMENT AUTHORITY

(A Component Unit of Clam Lake Township)
CADILLAC, MICHIGAN

JUNE 30, 2004

TABLE OF CONTENTS

| | <u>PAGE</u> |
|---|-------------|
| Independent Auditors' Report | i |
| Management's Discussion and Analysis | ii-iv |
| Basic Financial Statements | |
| Government-wide Financial Statements | |
| Statement of Net Assets | 1 |
| Statement of Activities | 2 |
| Fund Financial Statements | |
| Balance Sheet | 3 |
| Statement of Revenues, Expenditures and Changes in Fund Balance | 4 |
| Notes to Financial Statements | 5-10 |
| Required Supplementary Information | |
| Budgetary Comparison Schedule - General Fund | 11 |
| <u>Other Information</u> | |
| Letter of Comments and Recommendations | 12 |
| Letter of Reportable Conditions | 13 |

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Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

September 14, 2004

INDEPENDENT AUDITORS' REPORT

To the Board
Clam Lake Downtown Development Authority
Clam Lake Township
Cadillac, Michigan

We have audited the accompanying basic financial statements of the Clam Lake Downtown Development Authority (A Component Unit of Clam Lake Township) as of and for the year ended June 30, 2004, as listed in the table of contents. These component unit financial statements are the responsibility of the management of the Clam Lake DDA. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the Clam Lake Downtown Development Authority as of June 30, 2004, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Authority has implemented a new financial reporting model as required by the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* as of July 1, 2003.

The management's discussion and analysis and budgetary comparison information on pages iii through v and 11 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

BAIRD, COTTER AND BISHOP

Baird, Cotter & Bishop, P.C.

CLAM LAKE TOWNSHIP DOWNTOWN DEVELOPMENT AUTHORITY

(A Component Unit of Clam Lake Township)
CADILLAC, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2004

The Clam Lake Township Downtown Development Authority located in Wexford County, Michigan, has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Clam Lake Township Downtown Development Authority administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2004. In future years, comparative information will be provided.

A. Financial Statements

The financial statements, required by GASB 34, are new and being shown for the first time for June 30, 2004 for the Clam Lake Township Downtown Development Authority. These statements are calculated using full accrual accounting and more closely represent those presented by business and industry.

B. Summary of Net Assets

| | |
|-------------------------|-------------------|
| Assets | |
| Current Assets | \$ 176,549 |
| Liabilities | <u>0</u> |
| Net Assets-Unrestricted | <u>\$ 176,549</u> |

C. Analysis of Financial Position

During the fiscal year ended June 30, 2004, the Authority's net assets increased by \$50,225.

D. Results of Operations

For the fiscal year ended June 30, 2004, the results of operations were:

| | <u>AMOUNT</u> | <u>% OF TOTAL</u> |
|-------------------------|------------------|-------------------|
| General Revenues | | |
| Property Taxes | \$ 68,795 | 98.86% |
| Investment Earnings | <u>788</u> | <u>1.14%</u> |
| Total Revenues | <u>\$ 69,583</u> | <u>100.00%</u> |
| Expenses | <u>\$ 19,358</u> | <u>100.00%</u> |
| Changes in Net Assets | <u>\$ 50,225</u> | |

CLAM LAKE TOWNSHIP DOWNTOWN DEVELOPMENT AUTHORITY

(A Component Unit of Clam Lake Township)
CADILLAC, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2004

E. Analysis of Significant Revenues and Expenses

Significant revenues and expenses are discussed in the segments below:

1. Property Taxes

The Authority receives property taxes for operations.

For the year ended June 30, 2004, the Authority recognized \$68,795 of property tax revenue.

2. Fire Protection

The Authority pays for fire protection to the City of Cadillac its pro-rata share based on the captured taxable value of the district in relation to the total taxable value of the Township. For the year ended June 30, 2004, this amount was \$13,756.

F. General Fund Budgetary Highlights

The Uniform Budget Act of the State of Michigan requires that the Authority approve the original budget for the upcoming fiscal year prior to its starting on July 1. Any amendments made to the operating budget must be approved by the Authority prior to the close of the year on June 30.

For the year ended June 30, 2004, the Authority made no amendments to the budget. The following schedule shows a comparison of the original general fund budget, the final amended general fund budget and actual totals from operations:

| | ORIGINAL BUDGET | FINAL BUDGET | ACTUAL | VARIANCE WITH FINAL BUDGET |
|--------------------|--------------------|-----------------|-----------|----------------------------------|
| Total Revenues | \$ 62,500 | \$ 62,500 | \$ 69,583 | \$ 7,083 |
| Total Expenditures | 119,750 | 119,750 | 19,358 | (100,392) |

CLAM LAKE TOWNSHIP DOWNTOWN DEVELOPMENT AUTHORITY

(A Component Unit of Clam Lake Township)
CADILLAC, MICHIGAN

MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2004

G. Capital Assets and Long-Term Debt

1. Capital Assets

At June 30, 2004, the Authority had no capital assets.

2. Long-Term Debt

At June 30, 2004, the Authority had no long-term debt.

H. Factors Bearing on the Authority's Future

At the time that these financial statements were prepared and audited, the Authority was aware of the following item that could significantly affect its financial health in the future:

A significant portion of the Authority's funding comes from property taxes. Any impairment to this funding source would greatly impact the future of the Authority.

I. Contacting the Authority's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have questions about this report, please contact the Clam Lake Township DDA Treasurer at 102 Doral Drive, Cadillac, MI 49601.

CLAM LAKE TOWNSHIP DOWNTOWN DEVELOPMENT AUTHORITY

(A Component Unit of Clam Lake Township)
CADILLAC, MICHIGAN

STATEMENT OF NET ASSETS
JUNE 30, 2004

ASSETS

Current Assets

Cash

Commercial Account

Certificates of Deposit

Taxes Receivable

\$ 99,938
76,270
341

TOTAL ASSETS

\$ 176,549

LIABILITIES AND NET ASSETS

Liabilities

\$ 0

Net Assets

Unrestricted

176,549

TOTAL LIABILITIES AND NET ASSETS

\$ 176,549

CLAM LAKE TOWNSHIP DOWNTOWN DEVELOPMENT AUTHORITY

(A Component Unit of Clam Lake Township)
CADILLAC, MICHIGAN

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004

| | EXPENSES | PROGRAM REVENUES CHARGES FOR SERVICES | GOVERNMENTAL ACTIVITIES NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS |
|---------------------------------------|-----------|--|--|
| <u>GOVERNMENTAL ACTIVITIES</u> | | | |
| Public Safety | \$ 13,756 | \$ 0 | \$ (13,756) |
| Economic Development | 5,602 | 0 | (5,602) |
| Total Governmental Activities | \$ 19,358 | \$ 0 | \$ (19,358) |
| <u>GENERAL REVENUES</u> | | | |
| Property Taxes | | | \$ 68,795 |
| Investment Earnings | | | 788 |
| Total General Revenues | | | \$ 69,583 |
| Change in Net Assets | | | \$ 50,225 |
| <u>NET ASSETS</u> – Beginning of Year | | | 126,324 |
| <u>NET ASSETS</u> – End of Year | | | \$ 176,549 |

CLAM LAKE TOWNSHIP DOWNTOWN DEVELOPMENT AUTHORITY

(A Component Unit of Clam Lake Township)
CADILLAC, MICHIGAN

BALANCE SHEET
JUNE 30, 2004

ASSETS

| | |
|-------------------------|-------------------|
| Cash | |
| Commercial Account | \$ 99,938 |
| Certificates of Deposit | 76,270 |
| Taxes Receivable | <u>341</u> |
| TOTAL ASSETS | \$ <u>176,549</u> |

LIABILITIES AND NET ASSETS

| | |
|----------------------------------|-------------------|
| <u>Liabilities</u> | \$ 0 |
| <u>Net Assets</u> | |
| Unrestricted | <u>176,549</u> |
| TOTAL LIABILITIES AND NET ASSETS | \$ <u>176,549</u> |

CLAM LAKE TOWNSHIP DOWNTOWN DEVELOPMENT AUTHORITY

(A Component Unit of Clam Lake Township)
CADILLAC, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2004

REVENUES

Taxes

Current Property Tax Levy

\$ 68,795

Interest and Rents

Interest Earnings

788

Total Receipts

\$ 69,583

EXPENDITURES

Public Safety

Fire Protection

\$ 13,756

Economic Development

Clerical/Facilitator

4,200

Professional Services

1,260

Other

142

Total Expenditures

\$ 19,358

Excess of Revenues Over (Under) Expenditures

\$ 50,225

FUND BALANCE - July 1, 2003

126,324

FUND BALANCE - June 30, 2004

\$ 176,549

CLAM LAKE TOWNSHIP DOWNTOWN DEVELOPMENT AUTHORITY

(A Component Unit of Clam Lake Township)
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Clam Lake Township Downtown Development Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. Certain of the significant changes in the Statement include the following:

A Management Discussion and Analysis (MD&A) section providing an analysis of the Authority's overall financial position and results of operations.

Financial statements prepared using full accrual accounting for all of the Authority's activities.

A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The Authority has implemented the provisions of Statement No. 34 effective July 1, 2003.

A. Reporting Entity

The Clam Lake Downtown Development Authority was established through a Township Ordinance under Act No. 197 of the Public Acts of Michigan of 1975. The Township Board determined that it was necessary and in the best interest of the Township to halt property value deterioration and increase property tax valuation where possible in the DDA District, to eliminate the causes, and to promote economic growth.

B. Government-wide and Fund Financial Statements

For the fiscal year 2004, the Authority adopted GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as amended by GASB Statements No. 37 and No. 38, and applied those standards on a retroactive basis. GASB Statement No. 34 establishes standards for external financial reporting for state and local governments.

Invested in Capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

CLAM LAKE TOWNSHIP DOWNTOWN DEVELOPMENT AUTHORITY

(A Component Unit of Clam Lake Township)
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

Restricted net assets result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributions, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets are often designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be modified or removed.

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the activities of the Authority. The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

The government-wide focus is more on the sustainability of the Authority as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous financial reporting model.

Separate financial statements are provided for governmental funds. The Authority only has a governmental fund called the General Fund.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The accounts of the Authority are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

Accrual Method

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provided have been met.

CLAM LAKE TOWNSHIP DOWNTOWN DEVELOPMENT AUTHORITY

(A Component Unit of Clam Lake Township)
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

Modified Accrual Method

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

Property taxes and interest associated with the current fiscal period are all considered to susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Authority.

The Authority reports the following major governmental fund:

General Fund is the primary operating fund of the Authority. It is used to account for all financial resources of the Authority.

D. Assets, Liabilities, and Equity

1. Deposits and Investments

It is the policy of the Clam Lake Township DDA to invest its funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow needs of the Authority and comply with all state statutes governing the investment of public funds.

The Clam Lake Township DDA's Treasurer is limited to investments authorized by Act 20 of 1943, as amended, and may invest in the following:

Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution. Authorized depositories shall be designated by the Clam Lake Township DDA Board at the Board's organizational meeting after each regular election of officers.

2. Capital Assets and Long-Term Debt

The Authority has no capital assets or long-term debt.

3. Use of Estimates

CLAM LAKE TOWNSHIP DOWNTOWN DEVELOPMENT AUTHORITY

(A Component Unit of Clam Lake Township)
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

This presentation of financial statements in conformity with the modified cash basis of accounting requires the DDA to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of receipts and disbursements during the reporting period. Actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The Clam Lake Downtown Development Authority follows these procedures in establishing the budgetary data reflected in the accompanying financial statements:

1. Prior to July 1, the Chairman of the Budget Committee submits to the DDA Board a proposed operating budget for the fiscal year.
2. After review, the Board formally adopts the budget.
3. The Budget Committee Chairman is charged with general supervision of the budget and monitors the budget, making amendments when it is deemed necessary.
4. The budget is adopted on the modified accrual basis of accounting.
5. Budgeted amounts are as originally adopted on June 16, 2003.
6. Budget appropriations lapse at the end of the fiscal year.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Clam Lake Downtown Development Authority because it is, at present, not considered necessary to assure effective budgetary control or facilitate effective cash planning and control.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

The Clam Lake Downtown Development Authority has all bank deposits in Citizens Bank, Cadillac, Michigan. At year end, the carrying amount of deposits was \$176,208 and the bank balance was \$176,208. Deposits of \$100,000 were covered by federal depository insurance. Deposits totaling \$76,208 were not covered by federal depository insurance and were uncollateralized.

CLAM LAKE TOWNSHIP DOWNTOWN DEVELOPMENT AUTHORITY

(A Component Unit of Clam Lake Township)
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

IV. OTHER INFORMATION

A. Property Taxes

Each year, following the final equalization of property values in the District, the Township Assessor prepares the tax increment assessment roll. The tax increment assessment roll shows the initial assessed value of each parcel of property within the District and the amount by which the current assessed value as finally equalized for all taxable property in the District exceeds the initial assessed value of the property (the "captured assessed value"). Copies of the annual tax increment assessment roll are transmitted by the Assessor to the Township Treasurer, the County Treasurer, the Authority and the Treasurer of each of the taxing jurisdictions within the District, together with a notice that it has been prepared in accordance with this Ordinance and the Plan. The Township Treasurer and the County Treasurer, as ad valorem and specific taxes are collected on the property in the District, pay that proportion of the taxes, except for penalties and collection fees, that the captured assessed value bears to the initial assessed value to the Treasurer of the Authority for deposit in the Fund. The payments are made by the date or dates on which the Township Treasurer and the County Treasurer are required to remit taxes to each of the taxing jurisdictions

For the 2003 tax roll, the Authority's property tax revenue was computed as follows:

| | | |
|-------------------------------------|---------------|------------------|
| 2003 Taxable Value of District | | \$ 12,415,017 |
| Base Year Taxable Value of District | | <u>5,387,400</u> |
| Captured Value | | \$ 7,027,617 |
| Millages Captured | | |
| County Allocated | 4.2116 | |
| Township | <u>5.5286</u> | <u>9.7402</u> |
| 2003 Property Tax Levy | | \$ <u>68,795</u> |

B. Interest Income and Expense

For the year ended June 30, 2004, interest income and interest expense is as follows for the Clam Lake Downtown Development Authority:

| | |
|------------------|--------|
| Interest Income | \$ 788 |
| Interest Expense | \$ 0 |

C. Risk Management

CLAM LAKE TOWNSHIP DOWNTOWN DEVELOPMENT AUTHORITY

(A Component Unit of Clam Lake Township)
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

The DDA is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The DDA, through Clam Lake Township, participates in a pool of municipalities within the State of Michigan for self-insuring property and casualty, crime, general liability, and errors and omissions insurance. The Township pays annual premiums to the pool for the respective insurance coverage. In the event the pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. The Township has not been informed of any special assessments being required.

The DDA also through Clam Lake Township carries insurance for other risks of loss, including workers' compensation insurance and fidelity bonds.

CLAM LAKE TOWNSHIP DOWNTOWN DEVELOPMENT AUTHORITY

(A Component Unit of Clam Lake Township)
CADILLAC, MICHIGAN

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2004

| | ORIGINAL BUDGET | BUDGET | ACTUAL | VARIANCE |
|---|--------------------|-------------|------------|------------|
| <u>REVENUES</u> | | | | |
| Taxes | | | | |
| Property Tax Levy | \$ 61,500 | \$ 61,500 | \$ 68,795 | \$ 7,295 |
| Interest and Rents | | | | |
| Interest Earnings | 1,000 | 1,000 | 788 | (212) |
| Total Revenues | \$ 62,500 | \$ 62,500 | \$ 69,583 | \$ 7,083 |
| <u>EXPENDITURES</u> | | | | |
| Public Safety | | | | |
| Fire Protection | \$ 14,500 | \$ 14,500 | \$ 13,756 | \$ 744 |
| Economic Development | | | | |
| Clerical/Facilitator | 8,400 | 8,400 | 4,200 | 4,200 |
| Professional Services | 5,650 | 5,650 | 1,260 | 4,390 |
| Sewer/Water | 40,000 | 40,000 | 0 | 40,000 |
| Infrastructure | 40,000 | 40,000 | 0 | 40,000 |
| Other | 1,200 | 1,200 | 142 | 1,058 |
| Contingency | 10,000 | 10,000 | 0 | 10,000 |
| Total Expenditures | \$ 119,750 | \$ 119,750 | \$ 19,358 | \$ 100,392 |
| Excess of Revenues Over (Under) Expenditures | \$ (57,250) | \$ (57,250) | \$ 50,225 | \$ 107,475 |
| <u>FUND BALANCE</u> – July 1, 2003 | 125,675 | 125,675 | 126,324 | 649 |
| <u>FUND BALANCE</u> – June 30, 2004 | \$ 68,425 | \$ 68,425 | \$ 176,549 | \$ 108,124 |

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Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

September 14, 2004

LETTER OF COMMENTS AND RECOMMENDATIONS

To the Board
Clam Lake Downtown Development Authority
Clam Lake Township
Cadillac, Michigan

We have completed our audit of the financial statements of the Clam Lake Downtown Development Authority and are communicating to you our findings and recommendations for the year ended June 30, 2004.

New Accounting Pronouncement

The Governmental Accounting Standards Board (GASB) has issued Statement 34 that provides for changes in reporting requirements for the Authority financial statements. For the Authority, these changes were implemented in the June 30, 2004 financial audit.

Some of the more significant changes required by GASB 34 are as follows:

- a) Management's discussion and analysis is a new section in the financial report. This includes the administration's narrative overview of the information contained in the financial statements.
- b) Several new types of financial statements are now included that report financial information on an Authority-wide basis.

General Recordkeeping

The accounting records being maintained by the Treasurer were found to be in good order and in compliance with the State's uniform accounting system.

Conclusion

We wish to take this opportunity to thank the Board for the confidence they have expressed in our firm by awarding us this engagement. We hope these comments and recommendations will be viewed as constructive. Overall, we believe that the hard work and determination demonstrated by the Board and Treasurer of the Authority have enabled the Authority to be successful, and will continue to make it successful well into the future.

BAIRD, COTTER AND BISHOP

Baird, Cotter & Bishop, P.C.

Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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MICHAEL D. COOL, C.P.A.

September 14, 2004

LETTER OF REPORTABLE CONDITIONS

Clam Lake Downtown Development Authority
Clam Lake Township
Cadillac, Michigan

In planning and performing our audit of the basic financial statements of the Clam Lake Downtown Development Authority for the year ended June 30, 2004, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control structure. However, we noted certain matters that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the basic financial statements.

1. The relatively small number of people involved in the accounting functions of the Authority makes it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of the Board and others within the organization. This restriction is not intended to limit the distribution of the report, which is a matter of public record.

BAIRD, COTTER AND BISHOP

Baird, Cotter & Bishop, P.C.